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C O N F I D E N T I A L SECTION 01 OF 03 TOKYO 001006

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SUBJECT: SENIOR RULING PARTY LEADERS ON DOMESTIC POLITICAL
SITUATION

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Classified By: CDA W. Michael Meserve, reasons 1.4 (b),(d).

Summary

1. (C) Embassy Tokyo Political Officers called recently on senior ruling LDP politicians Makoto Koga, Kaoru Yosano, and Hidenao Nakagawa in separate meetings to discuss the ongoing impasse in the Diet and possible near-term political scenarios. Although the three offered differing opinions on dealing with the divided Diet, the meaning of Prime Minister Fukuda's sliding poll numbers, and how the LDP will resolve road-related revenue and gasoline tax issues, there was agreement that public opinion does not favor the ruling party and thus holding an election soon would be a mistake. End Summary.

Dealing with a Divided Diet

2. (C) Former Chief Cabinet Secretary Kaoru Yosano said the easiest way to fix the current divided Diet is for the opposition Democratic Party of Japan (DPJ) to win a majority in the next Lower House election. However, according to many election analysts with whom Yosano has met, the DPJ will not be able to pull this off. This leaves four other possible scenarios: 1) formation of a grand coalition; 2) formation of a partial coalition; 3) establishment of a policy consultation body; and 4) establishment of a new party by like-minded elements of the LDP and the DPJ. Option 4 will likely result in a broad political realignment, Yosano predicted. In a realignment scenario, he believes that the party's "ultra-nationalists" would likely break away, as would the anti-Ozawa group within the DPJ. He was unsure, however, what kind of common political goals these two groups could use to form a party.

3. (C) Yosano expressed his personal belief that realignment is more likely than not. Two other senior LDP politicians with whom he had spoken -- former Upper House caucus leader Mikio Aoki and senior Lower House member Taku Yamasaki -- also believe political realignment will occur naturally after the next Lower House election, because an increasing number of LDP politicians believe realignment is the only option to

solve the current Diet stand-off between the ruling and opposition parties.

14. (C) LDP Election Committee Chairman Makoto Koga, on the other hand, said establishing a policy consultative body is the best way to deal with the divided Diet. According to Koga, the ruling coalition and the opposition had both pursued this idea, but their timing was off. Because opinions will often be split between the Lower and Upper Houses, some kind of consultative body in each house should set rules on how to deal with such "divided situations."

15. (C) On the possibility of a grand coalition, Yosano expressed skepticism because it is already "an old card" following the failure of Prime Minister Fukuda and opposition DPJ leader Ichiro Ozawa to reach an agreement in late 2007. Before forming a grand coalition, a policy consultation mechanism needs to be in place, Yosano stressed, faulting Ozawa and Fukuda for poor preparations. Fukuda and Ozawa should have had their subordinates work out the coalition's details before meeting to come to an agreement, Yosano observed. In contrast, Koga stated that only with a grand coalition could Japan address the problems it is now facing, such as missing pension records. Koga stated that the LDP is prepared to make such a bold move, but Ozawa may not be able to unite his party behind this.

Election Timing

16. (C) Both Koga and former LDP Secretary General Hidenao Nakagawa denied the possibility of a snap election, given the current political situation. Nakagawa commented that if the LDP were to attempt an election now, it would be in "very big trouble." For his part, Koga feels, at this time, the LDP does not have the energy to fight an election, public opinion

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is not in favor of the LDP, and the economic situation is not good. In addition, public distrust in politics is growing due to "ongoing political confusion." Koga explained that the unprecedented patterns in the opinion polls -- the continuing drop of the Fukuda Cabinet support rate, while support rates for the LDP and the DPJ remain mostly unchanged -- prove that the public has no interest in politics. (Usually, the Cabinet and LDP support rates move together and the DPJ support rate moves inversely to the others.) Also, since the LDP support rate remains almost the same despite the drop in the Cabinet support rate, there has been little criticism of the Prime Minister from within the LDP, Koga noted.

17. (C) In contrast to Koga, Yosano suggested the possibility of Prime Minister Fukuda stepping down. If the Cabinet support rate were to drop below 25%, Yosano predicted, the mood in the LDP could change rapidly, and LDP members would begin to realize that the party would not be able to go through a Lower House election and maintain a majority under Fukuda. Fukuda would thus become even weaker and unable to remain as Prime Minister.

Road Revenue and Gas Tax

18. (C) Koga, one of the leaders of the LDP's highway construction lobby, did not express opposition to the idea of incorporating road-related tax revenue into general revenue from 2009 (rather than continuing to earmark such revenue for road spending). On the prospect of opposition coming from within the party's vested road interests, Koga responded "I am the biggest opponent of the idea, but am keeping quiet, so it will go okay." (Note: Indeed, the LDP agreed April 11 to incorporate road-related revenue into general revenue from 2009, but Koga and other highway construction lobby members were sure to include the caveat that "necessary road funding will be undertaken." End Note.)

¶9. (C) If the ruling coalition were to use its two-thirds majority in the Lower House to reimpose the provisional gasoline tax at the end of April, Nakagawa Hidenao was not sure what would happen. Symptomatic of the lack of any communication between the LDP and DPJ, there are no discussions taking place across the aisle on the subject, he complained. The LDP seems to be caught in the DPJ's internal battle between Ozawa and anti-Ozawa members, Nakagawa observed. He could not say for sure whether any ruling party members would vote against raising the gasoline tax to protest discontinuing road revenue earmarks, noting that once the Prime Minister made up his mind, members would have to follow his decision. Nakagawa criticized the DPJ for not offering any concrete proposals on tax rates and not being serious enough to pursue making changes from this year.

Kantei and the PM's State of Mind

¶10. (C) Koga, asked about the current state of the Prime Minister's Office (the "Kantei"), expressed concern that the party is unfairly making Fukuda take charge of the details of Diet management. Chief Cabinet Secretary Nobutaka Machimura and LDP Secretary General Bunmei Ibuki, together with Diet Affairs Committee Chairman Tadamori Oshima, should instead be the ones handling this. The PM should not have to decide the Diet's schedule or whether to re-vote on the gasoline tax. Considering the chilly relationship between Machimura and Ibuki, however, Koga said it was difficult to achieve this coordination and he is at a loss as to what to do.

¶11. (C) Personally, Koga commented that PM Fukuda is a calm person and is being patient with the current situation. Nakagawa also said that Fukuda is just trying to do his best, although feeling stressed under the current circumstances. Koga noted that he had heard that Ozawa had decided to say "no" to whatever the Prime Minister proposed, and it was difficult for Fukuda even to get Ozawa on the phone. Koga believed that Ozawa is attempting to use this negative attitude to build support within the DPJ for his campaign to win a second term as party chief in the September DPJ

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leadership election.
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